

**INSTITUTIONAL EFFECTS ON DEVELOPING POLITICAL CAPABILITIES:
THE CASE OF EUROPEAN AIRLINES ON THE AFTERMATH OF 9/11**

ABSTRACT

Governments and their agents can both facilitate and constrain organizational wealth creation. Whilst heterogeneously distributed valuable political resources allow a firm to develop capabilities to gain competitive advantage, less attention has been devoted to the conditions that impact the development of political capabilities in varying institutional contexts. This qualitative, inductive study examines the development and application of political capabilities in five European national airline carriers within an institutional context requiring reactive political strategies to influence policy makers, i.e. avoiding security costs from 9/11. We contribute to capability theory and practice studies by showing how senior management teams develop political capabilities in institutional contexts exhibiting increased uncertainty. We argue that while the senior management's attention to specific political processes can create valuable political capabilities, this value creation is moderated by the nature of the institutional environment and its barriers.

Keywords: airline industry; institutions; political capabilities; process; strategy-as-practice.

The core challenge for strategic leaders is to create or sustain a competitive advantage. Government practices affects the competitive advantage of firms and industries and can increase or decrease profitability. As a discipline, strategic management has offered a variety of theoretical routes to meet this challenge (Mahoney and Pandian 1992; Cockburn *et al.*, 2000; Sirmon *et al.*, 2007). The organizational capability approach, embedded in the context of a resource-based perspective, has become a primary explanatory framework of competitive advantage (Teece, Pisano and Shuen 1997; Eisenhardt and Martin 2000; Zollo and Winter 2002; Helfat and Peteraf 2003; Ethiraj *et al.*, 2005). It explicitly focuses on conditions of market environment change (Eisenhardt and Martin 2000) and non-market environment change (McWilliams *et al.*, 2002; Baron 2001; Bonardi *et al.*, 2007).

Teece *et al.* originally defined capabilities as the ability of firms to integrate, build and reconfigure resources to sustain competitive advantage in rapidly changing environments (1997, p. 510). However, the organizational capabilities perspective encountered criticism for being theoretically ambiguous. Eisenhardt and Martin (2000) addressed the criticisms, by proposing that dynamic capabilities consist of specific identifiable strategic and organizational processes, i.e. product development, alliances and strategic decision making that create value for firms within dynamic markets by manipulating resources into new value-creating strategies. In this context, questions specifically about the capabilities required by managers within the strategy process have been raised by scholars adopting the strategy-as-practice perspective.

Our study examines the development of a political capability as a strategic capability in a changing institutional context (Lawton and Rajwani, 2011; Lawton et al

2012). Political capabilities are an important means by which firm's appropriate value by influencing policy that will positively affect their market position (Hillman and Hitt 1999). In this paper we show how the institutional context impacted and interacted with the European flag carrier airlines to develop their political capabilities in a reactive approach (the introduction of the security costs from 9/11) from 2001-2004. Therefore, stemming from organizational capability theory and institutional theory, we argue that political capabilities are a set of specific and identifiable strategic and operational processes that are used by firms to gain and sustain advantage in the non-market environment, in our case the corporate political environment. Our distinctive theoretical position draws attention on how the institutional characteristics determine the ways in which firms use political capabilities to obtain, integrate, reconfigure, and release political resources. Therefore the main purpose of our study is to examine "what" institutional factors shape and constrain the political capability development process. Our study asks what it takes for airlines to develop their political capabilities to capture value within a specific institutional environment. Our findings contribute to organizational capability research, and more broadly the strategy-as-practice field, by revealing the mechanisms through which political capability emerges in a reactive institutional context.

THEORETICAL BACKGROUND: CAPABILITIES AND INSTITUTIONS

Corporate Political Activity (CPA) and Institutional Environment

Whereas market strategies involve decisions such as product positioning and pricing, non-market strategies are actions taken by the firm in its political, regulatory, and social environments for the purpose of increasing firm value (Baron, 1995, 1997). Corporate political behavior includes such activities as lobbying a legislator or regulator, litigating a

case in court, making campaign contributions, and mobilizing political actors to support or oppose a strategic initiative. There are two fundamental questions associated with crafting corporate political strategy: first, “how do institutions” impact the non-market activity of a firm; and second, how do political capabilities develop within a specific industry to impact the non-market environment. These questions are important as they relate to both firm strategy and the boundaries of the firm. We apply these questions to the corporate political activity (CPA) undertaken by airlines at the European Commission and EU national government level after 9/11.

The notion of CPA and its value to firms in managing the institutional environment both nationally and internationally is acknowledged in the literature (Hillman and Hitt, 1999; Keillor and Hult, 2004; Bonardi *et al.*, 2006). Keillor *et al.*, (2005) suggest that firms involved in political strategy have several motives for engaging in political behavior. First, domain advantage (pursuing the firm’s private interests); second, domain defense (managing public policy that might be at odds with the firm’s strategic goals); and third, domain maintenance (influencing public policy that might threaten the means by which a firm achieves its goals). A variety of political behaviors can be used to accomplish the firm’s overall objective of dealing with political uncertainty. These include business-government alliances, political inducements and contributions and, in this study, overt political strategy.

Existing research on CPA tends to focus on the amount and type of influence that occurs when political capabilities are exercised and has largely omitted the options firms have to organize their political capabilities, i.e. the process of lobbying from a corporate perspective. As a result, the collective action literature has much to say about the amount of political strategies that occur but is less informative when it comes to the organization

of and processes of emergence of political capabilities (Hillman *et al.*, 1999). Furthermore, the theories articulating the free-rider problem do not address whether firms will choose to internalize the political action function or undertake it through a common body outside their organizations. The main criticisms of the studies are that they fail to understand how institutions participate in developing these political capabilities, especially by understanding the key patterns of development internally and externally.

Developing Political Capabilities in Reactive Institutional Contexts

Different authors coming from disparate scholarly traditions have used the term institution in so many ways that it is not clear what it means unless defined precisely for the context of a study. Within this vast literature, North's book (1990) and Scott's (1995) works are by far the most recognized references and provide the most widely accepted notions of institutions. Institutions, as explained by North and Scott, include both formal constraints, such as legal regimes and the way they are enforced, and informal constraints, such as widely held norms and codes of conduct. Both North and Scott explicitly contend that institutions are "the basic rules of the game" that structure the economic, political, and social relationships (see also Fligstein, 2001). The nature of those institutions vary from more formal –e.g., regulation and the quality of judiciary– to more informal –e.g., embedded, local practices and beliefs that define "how things are done here" (ibid. 2001). The commonality among those different institutions is that they control the way firms behave and the way resources retain or lose value (Powell and DiMaggio, 1991).

Capability literature within the strategic management domain (Thomas, 2001) offers very little about overcoming institutional barriers. Existing literature on institutions

asserts that there are very limited possibilities of institutional incremental change (Eggertsson, 2005; North, 1990). An important lesson from developing economies and remarkably from processes of marketization across Europe is that institutional change, is that evolution and change in institutions is too slow and sluggish, the path to improve supporting institutions is very unclear, and experimental in nature. As a corollary, significant manipulation of institutions is likely to be beyond one or several firms' power and ability (Eggertsson, 2005). Next we show how a practice perspective can advance our understanding of capability development.

A Practice Perspective on Capability Development in Reactive Institutional Contexts

Despite the abovementioned advancements in our understanding of the impact of institutional context in the principal features of capabilities and the capability development process, we are still missing micro-level examinations of such processes. Questions specifically about the capabilities required at the micro-level and by managers within the strategy process have been raised by scholars adopting the strategy-as-practice perspective. Notably, Whittington argues that a central question for researchers is “what are the skills required for strategizing and organizing work and how are they acquired?” (2003, p. 120). Interestingly, while the strategy-as-practice approach allows for such micro-level examinations of practice due to the constructs and practice theories available to practice researchers (Vaara and Whittington, 2012), there is a lack of empirical, practice studies focusing on practitioners' capabilities. We argue that this is an area of great potential in both theoretical and empirical terms, as captured in Table 1 below. This table outlines the key questions, constructs and features of a strategy-as-practice

perspective into the study of political capabilities in an emergent institutional context. This table also serves to contrast this practice-based approach to traditional ways for the study of political capabilities found in the strategy literature.

Insert Table 1 about here

The purpose of the present study, therefore, was to build theory about how practitioners develop political capabilities in the context of an emergent institutional reality. Without such an understanding strategy researchers lack insights into the determinants of macro-level capability development patterns and the environmental-level changes that have received the majority of attention by previous studies in the capability literature. Given this gap in the literature and rising calls for such micro-level work at the intersections of strategy-as-practice (Johnson et al., 2003; Whittington, 2006) and institutional theory fields (Lawrence and Suddaby, 2006; Lounsbury, 2008; Jarzabkowski et al., 2009), we set out to examine how practitioners in the airline industry developed political capabilities in the aftermath of the 9/11 terrorist attacks in the United States of America. There are theoretical and empirical benefits from such study. At a theoretical level, and as shown in table 1, below, we argue that practice-oriented examinations of political capability development can help us address new and important questions, not traditionally addressed in the strategy literature. at the empirical level, and following empirical studies at the intersections of institutional theory and strategy-as-practice (Dacin, Munir, and Tracey, 2010; Paroutis and Heracleous, 2013; Tilcsik, 2010), our study contributes to a micro-level understanding of political capability development by airline practitioners in the emergent institutional context at the aftermath of 9/11. Overall, our principle research question is: What moderating factors contribute to the development

of political capabilities in reactive institutional contexts?

METHOD

Research Setting: Airlines in the Aftermath of 9/11

Consideration of the institutional contexts in the non-market environment is important to analyze the way political capabilities are organized, since different contexts imply different valuations of resources and capabilities (Penrose, 1959). However, little work has been done to assess the effects of firm-specific political capabilities on helping the firm manage its resources in a given institutional context (Ethiraj *et al.*, 2005). Although firms in any given industry are likely to face similar types of institutional forces, the differences in their accumulated political resources and political capability endowments (e.g. skills, propensity for learning, specialized assets) could become important factors that may influence the development of sources of competitive advantage (Barney, 1991). We define the institutional context as a frame where firms, individually or collectively, have an expected understanding of systemic stakeholder actors within a political system. As a result, the firm responds reactively to advance or defend its interests in an exogenous period.

Our context is the “9/11”, which is viewed as a period of high costs that constitutes the effects of terrorism. The terrorist attacks in the USA caused a number of short and medium term impacts on the European aviation industry. First of all, US airspace was closed in the immediate aftermath of the attacks, and was not opened for four days. During this period, no flights from Europe to the USA could operate, leading to a loss of revenue for airlines and airports in Europe. When flights resumed, there was a dramatic decrease in demand. This was most severe on North Atlantic routes but was significant across all types of routes. The only market segment that did not appear to be

badly hit was the low fares sector. It seemed that demand from consumers for low fares still kept them on a healthy and strong foothold in this period. On the commercial side, the airline industry response to the crisis facing them post September 11 was centered on withdrawing aircraft from service, cutting staff numbers and renegotiating contracts with suppliers. In the months following September 11, the European Union's surviving flag carriers announced job cuts of circa 25,000 employees. Air France and Finnair were notable as the only major carriers who did not announce job losses. In addition, there were also a number of actions taken to maximize cash reserves, such as deferring investments and sale of non-core businesses.

In this challenging context, airline executives knew that they were losing demand, so they had to find ways to get compensated on the aftermath of the attacks. In order to secure compensation to support their growing debts, exacerbated by a fall in demand and extra costs associated with new government security policies, airlines had to react quickly. It was within this environment that European airlines quickly learned that they had to lobby the European Commission and their national governments, as lobbying was vital to them sustaining their competitive positions. Moreover, the majority of airline government affairs departments had to influence and make their organization's interests heard on several issues. Figure 1 below showcases the levels (national, firm and international) of stakeholders involved in the aftermath of 9/11 and were the focus of our study. In each firm, we paid particular attention on the political capabilities and lobbying practices employed by the "government affair office", which tends to be comprised by a small number of executives whose role to lobby government officials and interact with other relevant stakeholders.

Overall, in the challenging and emergent institutional context shaped by the

aftermath of 9/11, airline executives started more actively to explore and develop political capabilities that were, in turn, expected to help them be successful in getting their firm's issues heard and addressed. Such setting was ideally suitable for our study of political capability development in an emergent institutional context.

Insert Figure 1 about here

Case Studies

We followed the guidelines of case selection for theory building from case studies provided by Yin (2003) and Eisenhardt (1989). The selection of the case sites was based on theoretical sampling, necessary so that the phenomenon of interest can be readily observed. In the European airline industry we identified several firms that met our initial criteria of being a fully functioning business in the chosen policy context, including firms that: (a) had some amount of history (i.e. were not recent start-ups); and (b) had made statements in press releases or the media that they were in the process of reconfiguring some important aspect of their political strategies during the chosen policy context. We contacted twenty EU-based long haul airlines and selected for the study the five firms that committed to participate through granting us good access to their people and documentation. In particular, these case companies granted us access to members of top management teams within their government affairs offices or related departments that dealt with government and regulatory agencies. All participating firms expressed an interest in the potential findings of the study, which ensured a high degree of cooperation during the interviewing process. Conveniently, the five case companies selected represent a diversity of European airline companies in terms of size, ownership structure, market success, geographical base and route network.

We selected the airline industry – specifically European flag carrier airlines - as a setting for our investigation for several reasons. First, air travel remains a large and continuously expanding industry. It facilitates economic growth, world trade, international investment and tourism and is therefore central to the globalization phenomenon. Second, the airline industry has been fraught with politics and governmental interference for many decades and airlines have had to battle with the politics of regulation and deregulation, both domestically and internationally. The five case companies included in this study are: SAS, Alitalia, TAP Air Portugal, Lufthansa, and KLM (refer to table 2 below).

Insert Table 2 about here

Data Collection

We collected two types of data: semi-structured interviews and extensive archival data, over a period of four years. Initially, we performed a pilot study consisting of in-depth, semi-structured interviews with three directors and one manager of government affairs from Virgin Atlantic and Swiss Air. The purpose of these interviews was to ascertain some key constructs to refine the questionnaire used for subsequent interviews. These experts helped to define some initial themes around political capability development – especially with regards to the process with institutional factors– employed by airlines with different structures. These initial themes were further refined and developed with our main study dataset.

We gained access to five airlines where we performed 42 semi-structured interviews between 2003-2007, ranging in duration from one to two hours. All interviews were recorded and transcribed. We interviewed various stakeholders in order to provide a

rounded appreciation of the phenomenon under examination. For example, our informants had roles such as: directors of government, aeropolitical affair and public affairs managers, public relations experts, as well as other members of the top management team in the next level of the hierarchy who were responsible for the areas targeted for organizing political capabilities during the chosen policy context. We also interviewed external experts from the Association of European Airlines (AEA) and the International Air Transport Association (IATA) to increase the validity and reliability of our dataset. Our second dataset consisted of extensive secondary archival data sources spanning a 10 year period (from 1997 to 2007). These included public documents, company reports, newspaper articles, press releases and accounts in specialist airline books and periodicals. We paid particular attention in the way features of these archival data changed in the aftermath of 9/11 and the emergence of new publications to address the issues the airline industry was then facing, particularly around the central issue of security. These archival documents allowed us to contextualize and compare the themes emerging from our interviews across the five case studies.

Data Analysis

As is typical for multiple-case, inductive research methodologies (Eisenhardt, 1989a) we commenced data analysis by synthesizing all the interview data and the secondary data of a focal firm and building individual case histories. We began with an in-depth analysis of each case through the lens of our research question: What moderating factors develop political capabilities in emerging reactive institutional contexts? We constructed a timeline of key events and developed a comprehensive understanding of the overall case by reading and coding all interviews and documents. Given the large number of public

documents, company reports, newspaper articles, press releases, we used a parsimonious list of general codes (“actions”, “relationships”, “structure” and “strategy”) and company interviews to understand how political capabilities were developed during the period from 2001 to 2004 at a national and a European level to explore their political strategies to impact the deregulation process. This perspective allowed us to explore the changes and cycles that occurred in multiple levels of organizing. We employed a multi-case design that supported replication logic, whereby a set of cases was treated as a series of experiments, each serving to confirm or disconfirm a set of observations (Yin, 2003). The primary unit of analysis was the political capability. For each initiative we identified the motivation behind the decisions. We cross-checked these descriptions across informants to enhance validity. We looked for both commonalities in management actions in the organizing of political capabilities across initiatives and for the overall pattern.

After completing the case analysis, we began developing a preliminary conceptual framework by comparing the patterns of organizing political capabilities across the five firms studied. Once the framework was developed, we applied it to all five cases to examine how well it fit with the data (ibid. 2003). We also contacted the case study firms with requests to review our findings and provide comments on the emerging framework. Such procedures helped to establish the validity of results derived from the qualitative analysis.

Using the data analysis procedure outlined above, we developed a set of formally stated observations based on our five case studies. This constant iteration between theory and data helped us: sharpen constructs, strengthen the internal validity of findings and enable more frequent comparison of emergent theory with concepts and constructs from the extant literature. The technique of cross-case pattern sequencing (Miles and

Huberman, 1994) was used to construct an interpretive framework for organizing political capabilities. The next section presents our findings and our conceptual framework.

FINDINGS

The results of our inductive analysis of our dual dataset revealed six stages of importance in the development of political capability across the five case study airlines experiencing the aftermath of 9/11. Below, and for each of our case studies we use outline detailed insights into the political capabilities and their employment by the government affairs offices to deal with the new institutional context post-9/11.

Case Study 1: KLM

The harsh impact of post 9/11 was hard for the airline industry to absorb. The government affairs office in each of our five cases had to drastically re-focus its function, resources and capabilities to meet the new policy environmental needs brought forward by the exogenous shock. KLM introduced a corporate political strategy, to defend their commercial position; KLM's government affairs office followed a strategy by lobbying specific targets to regain a loss in revenue. It implemented this by attempting to exert influence by means of both generic and idiosyncratic exchanges of ideas with prominent figures in politics and the governments, and with representatives from various other sections in Netherlands, in the days after 9/11. As one respondent said:

Few hours after the planes went into the twin towers, we had to call our emergency director meeting and then a departmental meeting. From this meeting, we knew that we had to meet with some senior national level authorities to give them our position. These meetings with national authorities actually happened the following day.

KLM's political capabilities were developed to deal with the three issues depicted above,

insurance coverage, aviation security costs and compensation package began very quickly. The days after 9/11 included periodic meetings with members of the KLM board, exchanges of correspondence on suggestions and positions taken up, organization of industrial visits, presentations, and so on. As a senior respondent explains:

Well it was chaos that we saw all over the world after those events. There were a couple of things that were important for us. We had to get our air craft with passengers back into the transatlantic domain, you know that the US sealed off their Air Space completely. So we had a lot of planes that had to fly to Canada, Greenland, Denmark, Mexico etc. So we had a lot of issues with the Dutch Government but also in Brussels and Washington. To get clearance to have the international transatlantic traffic flowing again.

There were lots of different tools and methods found to be used by KLM's government affairs office in the aftermath of 9/11. These activities were used to influence both national and international political targets in the hours and days after September 11. As one KLM senior management respondent captured the essence of what was happening in this context:

We have all sorts of templates that we follow with the addition of our own templates. Our manuals have most answers to all possible scenarios. To be honest we have a very extensive emergency response manual here at KLM. That is not so much during 9/11. But I must admit that it has been sharpened up to say that after 9/11 but we have always had one. Actually I would say for decades, KLM has an emergency department which deals with further sophisticated guidelines.

Another respondent mentioned that:

What we do in KLM is that we are easy going in giving presentations. We are inclined to do that quite easily generally because we think that we have a message to send and tell. We are very willing to tell that message during conferences and lectures etc. And that is very much in the informal circuit, but still I mean I myself quite frequently give presentations at conferences. It might be an informal way of lobbying but it is a strong way to get your message across but there is always press around, there are always regulators around, there are always consultants and lawyers around, colleagues from other airlines and airports etc. So you do have the right setting of audience to be able to get your message across. We tend to do that regularly and most of the other lobbying is done through personal contact.

According to people interviewed, from the archival data obtained and EU commission reports, KLM used mainly individual lobbying practices in the days after 9/11. However they shifted their lobbying efforts to move through AEA and the Dutch Authorities after a few weeks. The respondents acknowledged the fact that their political capability was very important in developing their lobbying capability process in new institutional environment. Moreover, senior management believed that their lobbying capability development process would start from their political resources. The senior management, would weigh the options of introducing new political resources or using current ones, to make new lobbying processes that would leverage and deploy the political resources (a symbiotic relationship between resource and capability).

Furthermore KLM senior management explained that their thinking templates led them to believe that political resources were still comprised of human resources, organizational structure and network resources. They believed that these sub-level political resources needed to be reconfigured to create non-market change to impact the potential onset of new policies. We categorized all the themes found into three key variables that make up a political resource; human, organizational and network resources. One of the respondents believed that it was important to leverage on these resources and to get involved in the lobbying process early. Thereafter talking to high status people was viewed initially as the right way in this context:

I believe that we followed the emergency manual from the first minutes and hours after 9/11. With the addition of our own thinking of course. We were speaking to specific targets in our national governments as explained in the manual; however who to contact with regards to names was discussed in our emergency meetings. At the same time, we were using AEA, but afterwards we realized that we had to shift our efforts more at the EU level. At this stage we felt that AEA was the best way to influence in order to get the best outcome. Individual efforts were not needed as much after a few weeks and we thought it was a waste of time. Everyone was in the same boat, and we had the same interests so AEA played a

paramount role for us in this context. But we did lobby within our AEA meetings too.

Overall, the KLM senior management team also expected that their previous experiences, foresight, current learning, ownership and time played important roles in configuring their political capabilities to suit more closely the new requirements in the aftermath of 9/11.

Case Study 2: Lufthansa

The government affairs function within Lufthansa was perceived by the rest of the organization as if “they were strategic advisors”, as well as people who are in charge with implementing strategy of Lufthansa, or, at least, creating or influencing the creation of the political and regulatory parameters to allow Lufthansa to implement its strategy. This department’s function (in this context) brought in non-market information and analysis into the company and then they moderated their decision-making processes to react to potential policies, while defending their positions. In other words, this department took its non-market decisions post 9/11 and then tried to influence the policy environment in order to facilitate the implementation of their own corporate strategy. They worked on the local level, with the hub communities, European commission and other European governments.

On the other hand, pre 9/11 this office focused their efforts on many different issues. According to the interviews and annual reports, we found that this department focused large amounts of time on slot regulation, labor laws, and improving the image of Lufthansa with regards to the environment. In addition, they were working in different jurisdictions to gain traffic rights e.g. from Japan to the U.S. At an abstract and peripheral

level they focused mainly on monitoring and defending their organization's position by scanning the non-market environment. As one respondent said:

The main issues were mainly very dull. Of course the infrastructure scarcity was already an issue. So issues like slot regulation and environment. Single European Sky was already on the list. Galileo was another issue that was talked about. Then all kinds of labor law issues or operational regulations. IATA sounding for example safety issues. And then of course we spent a lot of time on forging alliances and getting the respecting clearances for that. Then noise issues. The hushkit debate. Subsidies questions. Aitalia two packages I guess. Many airlines were earning quite good money in the industry so the whole thing was not as critical and as adventurous as it was post 9/11.

Political capabilities were required by the Lufthansa's government affairs office while they employed lobbying actions to influence various stakeholders. As one senior respondent describes the lobbying routines used in this context:

These routines were the same as the ones used in other issues but in greater frequency and different combinations. The routines were used to influence our governments and EU level political actors. This was an extraordinary event so we used a mix of routines that we believed would create positive influence. These combinations are not a strict recipe but more dependent on our owners in mind.

While another senior respondent said:

To be more precise, let us look at things step by step. We were first evaluating what had occurred. Thereafter we used the phone calls to see who could help. So I had to look to see who could help us. Undeniably friends and alliances within the system are very important to this process. We used routines revolved around personal letters to the commission, phone calls to people in the commission but these routines are givens. However, what is important are the people that are most close to you within the system. These people can influence to some degree. But I would say that the combinations are important. Indirect routes cannot happen without direct routes.

Our findings indicate that Lufthansa was using some lobbying routines to influence policy makers after 9/11 using an a combination of high frequency telephone routines, visiting friends, letters and one to one sessions with political contacts. The generic lobbying routines included AEA and holding talks at conferences. The generic lobbying

routines were viewed to be the best way to influence political actors in their opinions after a few weeks; therefore they focused most of their efforts on coalition representation, instead of using mainly individual efforts.

Prior to 9/11, the government affairs office had freedom to lobby without having meetings with its CEO or other directors, as most of its senior representatives in this office were empowered to make important decisions with regards to lobbying. However, after 9/11, the direction and lobbying efforts had to change for the government affairs office because Lufthansa had to defend its declining position. Moreover, Lufthansa did not drastically change its approach to running its government affairs department nor did it restructure the department. It just shifted its focus to its coalition lobbying arm after lobbying individually. As one Senior Lufthansa figure highlights:

Lobbying had to change at Lufthansa in the sense of whom to contact, which manner to contact and of course content. Also the flow of decision shifted from bottom up to top down. The individual routines were at the start similar to other contexts but used more frequently but then we used AEA more. [A002]

In this policy context, political resources were very important in developing Lufthansa's lobbying capability. Senior management believed that their lobbying capability development process would start from their political resource base. Consequently, they would use their thinking blueprints to weigh the options of whether introducing new political resources or use current ones, to make new lobbying processes or use current ones, in order to leverage and deploy the political resources to create favorable policy changes. Lufthansa's respondents disclosed that their thinking templates led them to believe that political resources were comprised of human, organizational, structural resources and network resources. They believed that some sub-level political resources needed to be reconfigured to create non-market change to impact on the potential onset of

new policies.

The senior management team believed that their previous experiences, foresight, current learning, ownership and time played important roles in configuring their political resources to develop their lobbying capability in order to effectively leverage and deploy their political resources again. One of the respondents believed that it was important to get involved in the lobbying process early rather than late and that talking to high status people was initially the right way in this context:

I think, like all airlines we were conveying our position to our authorities in the hours after 9/11. We did this for weeks using individual and AEA paths. We contacted people at both national and EU level. We tried to work with the European Commission. But it is always a very delicate game to balance your lobbying at Brussels and on a national front. You need support from your own member state and the council usually if you want anything done at Brussels. You don't just lobby just at Brussels, but you have to lobby at Berlin and Bonn. You have to balance between the all things in my view.

Case Study 3: Alitalia

The government affairs function within Alitalia was organized to deal with institutional organizations; it dealt with the legal frameworks, however it had developed a more business-oriented approach since the deregulation period. Within this office, there were mainly senior people that were responsible for dealing with the key stakeholders. That covered all relations with institutions at national and EU level. At the national level, it was primarily dealing with the Italian parliament and the Italian government and its Ministry of Transport. It also dealt with the treasury, as the treasury held about 62% of the capital of Alitalia (the main shareholder). They also had relations with the Italian regions, as Italian regions had a lot of power and the Vatican. At the EU level, it would have dialogue with the Commission, parliament and Council. Pre 9/11 this office focused their efforts on many issues, but getting a decree from the Italian government to authorize

privatization was one of the most important. Nevertheless, others efforts included lobbying for traffic to South America, labor law, and improving the tarnished state-owned image. At an abstract and peripheral level they focused mainly on monitoring and defending their organization's position by scanning the non-market environment. As one respondent said:

Alitalia was focusing on getting a decree from the Italian government to authorize the privatization of the company, because at the time Alitalia was developing its links with Air France. The company had just joined sky team...And the company was very much focused on lobbying at a national level to get that privatization. At EU level, before 11 September, the company was focused on using AEA to lobby. But there was no specific issue of importance except that the company wanted and knew that it would have to be recapitalized somewhere in 2002. And of course this recapitalization would be undertaken partly by the state, being the main shareholder. And it would have to get approval from the commission. So it was preparing that.

However, post 9/11, Alitalia was focusing on lobbying for three issues. During the exogenous policy context (2001-2005), this department made decisions to influence the policy environment in order to facilitate the implementation of their own corporate strategy to defend its position. They worked on the local level, with the hub communities, European Commission and other European governments. As respondent said:

The triple issues that everyone was lobbying for: the compensation package, the insurance cover issue and the security cost issue. We were lobbying for those issues, but I would put the security cost as the last issue because the priority was on compensation for the four days of closure of US Air space just after 11 September and on insurance. Because without insurance we would not be able to simply operate and then of course the reimbursement of security cost of having the states accept taking on those costs. For Alitalia there was a specific issue, which overcame all those issues. It is the fact that we were lobbying to get our new restructuring plan and the recapitalization of the company approved by Brussels and that is what we obtained in June 2002...So in that period a lot of lobbying was done. I was almost in Brussels non-stop.

Post 9/11, Alitalia asked the Italian Government for financial support to cover payments for staff redundancies through the cancellation of the 10 per cent ticket tax. This was in

addition to the airline's receipt of the third and final financial aid agreed by the European Commission in October 2001, on a "one-time, last-time" basis and subject to various conditions. Alitalia believed that US governments put in place a \$15 billion dollar package which needed to be equaled in Europe. Moreover, the US received around five billion in cash and ten billion in loans for US carriers and so it was clear that Alitalia had to react along similar lines. However, they knew that it was going to be very difficult from the start, where the European government and commission offices considered not meeting a comparable US financial size. The evaluation of options led them to believe that investing time and people in following the process was not really worth it, so they shifted all efforts to AEA. The message in Brussels was, *"yes we understand but air transportation is in trouble, but if you cannot survive this then too bad as we don't have too much money"*. As a result, Alitalia realized their lobbying capability development process had to measure the best efficiency path and time for this type of context.

The choice and combination of lobbying activities can be very important in creating a type of 'defense' influence to protect balance sheets from being eroded. This was the case for most airlines post 9/11, where airlines were going to face the exogenous policies that would hinder their competitive positions. Alitalia's government affairs office were using different lobbying routine combinations in order to leverage and deploy political resources to influence policy makers for the three policy issues, those being insurance coverage, airline security cost issue and a compensation package. They started using a combination of activities such as: using an array of high frequency telephone routines, visiting friends, writing letters and one to one sessions with political contacts. They also focused most of their efforts on coalition representation (using AEA) after a few weeks instead of using mainly individual efforts. A senior manager said:

Alitalia was hit badly by the terrorist attacks. We evaluated the damage and the future damages that would be incurred. As a result, we started asking the Italian Government for help to cover payments for staff redundancies we made, because of the cancellation of the tickets etc. We used several routes to pass information to our authorities about our declining positions. We used direct contacts, had meetings and phone calls with the treasury, which was not that successful in my view. But yes, I believe that AEA was the most important way to get our message heard.

Prior to 9/11, the government affairs office did not develop a sophisticated European lobbying arm as they did not have to go far to speak to their national government. However, after 9/11, the direction and political efforts had to change for the government affairs office because Alitalia had to defend its declining position. They did change drastically their approach to running their government affairs department and restructured the department. As one Senior Alitalia figure highlights:

We did what we could by writing letters, talking to our friends, our owners. But in the end, we had to use AEA. Time was a big factor and we had to react quickly in order to utilize the right processes but we had limited resources.

While another respondent said:

I can tell you that we increased our activities, writing, making phone calls, emailing, and so on. But we have not have a clean template like maybe British airways that focus in creating a particular type of routine groups, if that is what you like to call it. I think we were messy, probably because of the fact that we are so much less number of people after 9/11, and therefore it was difficult for us to organize our work and we were busy with issues.

In this context, political capabilities were seen as very important by Alitalia's top management team to help developing Alitalia's lobbying capability. Senior management believed that their lobbying capability development process would start from their political resource base. Alitalia's respondents clarified that their thinking processes were well defined but constrained by time and ownership. However, following a blueprint led them to believe that political resources, human, organizational, structural, and network

resources, could be used to develop their political capability. They believed that some sub-level political resources were needed to be organized in such a way as to create non-market defense to reduce the potential onset of new exogenous policies. Yet the emergent policies were considered difficult to control in Alitalia's view. As one respondent said:

We did what we could by writing letters, talking to our friends, our owners. But in the end, we had to use AEA for the three issues as time was running out. While we used individual lobbying for the recapitalization as that was the most important thing in my view... We had the expertise at the national level but could not lobby at the EU level the same way, as we did not have the right resources for this time.

Case Study 4: SAS Airlines

The government affairs function within SAS was organized to deal with legal frameworks, bilateral agreements with states, monitoring of the political landscape and, more importantly, implementing corporate political strategies to create or defend their competitive position. The senior people within this office were responsible for dealings with the key stakeholders, which covered all relations with institutions at national and EU level. National level was primarily the Swedish, Norwegian, and Danish parliaments and governments.

Pre 9/11 this office focused their efforts on many issues including acquisition of traffic rights and monitoring the political scene. In other words, at an abstract level they focused mainly on monitoring by scanning the non-market environment. Soon after 9/11 (exogenous policy context), this department took decisions to defend their position from the emerging policy environment in order to facilitate the implementation of their own corporate strategy. They worked on the local level, with the hub communities, and at an international level with the European Commission and other European governments to protect their position. They made it clear that SAS was in a difficult position; stopping

insurance, not providing compensation, and making them pay for security costs would be disastrous for the Scandinavian region. As one respondent said:

Acquisition of traffic rights and mainly monitoring the political scene were the activities that our departments were focusing their efforts on. But on the actual day of the attack I was in Brussels actually. At that point I thought that the airline industry will never be the same after and of course that was true. September 11 had a tremendous impact on the entire airline industry. But looking at 9/11 as an impact in context of this department and its functions, it did not change anything drastically in our department. It was just that we had some new topics that we had to deal with like security, like insurance and those kinds of things. But what we did before 9/11 and after 9/11 on general routines bases was not very different.

While another SAS informant said:

We expressed our views on insurance and security costs. Those were big things, so we were lobbying the EU system mostly through AEA but we also obviously used our national EU representatives also. We addressed the Scandinavian governments and parliaments. That was vital - without that state insurance help, I don't think that any airline would have survived. And the Airlines paying all the security costs would have been problematic.

SAS realized their political capability development process had to measure the best efficiency path and time for this type of context. They started lobbying various stakeholders using different political actions but maintained a similar structure to pre 9/11. However, their decision frames were based on following other people and using their own rules.

Everyone has different network base but we all use a generic platform like AEA. But the network is differentiated by who you know. I think individual lobbying has its perks and some contexts need this more, while coalition lobbying using trade associations have their benefits too in some contexts. Maybe using both individual and group lobbying is the best way forward. I think overall that we managed to get what we wanted at EU level and collectively with the other airlines, with AEA...Of course you needed all these issues to be approved at EU level but as far as implementation was concerned, it all depended on national level, so then you needed to go to your respective member states and make sure that they would take the implementing decisions because it was there economic value that was getting affected.

There were lots of different political actions found to be used by the SAS's government

affairs office during this new institutional environment. As one senior respondent describes the choice of lobbying routines:

Well we used phone calls, letters and personal visits to meet some people at our national authorities in Denmark, Norway and Sweden. But AEA was doing most of the work for us when it came to lobbying the European commission. They provided the coordination and information gathering, intelligence exchange and so forth.

While another senior respondent said:

The process was very much like what it has been traditionally using the various routines and tools within our box, including letters and information material, including meetings, one to one or with larger groups. But at this point we had a time element as well, so intensity of lobbying had to change. So it would be fair to say that we had less time with direct contact with politicians to influence them in the way we wanted. Less time talking to all the different political parties and governments of the three Scandinavian countries. They understood the problems quite fast. They had no problem there and they all talked to each other to be sure that they were handling the matter the same way.

SAS was using particular lobbying actions to influence policy makers after 9/11: high intensity telephone routines, visiting friends, letters and one to one sessions with political contacts. The generic lobbying routines included mainly AEA and attending conferences. Prior to 9/11, the government affairs office had freedom to lobby without having meetings with its CEO or other directors; this was the case as most of its senior representatives in this office were empowered to make important decisions with regards to lobbying. However, after 9/11, the direction and lobbying efforts had to change for the government affairs office because SAS had to defend its declining position. Moreover, SAS did not change drastically its approach to running its government affairs department nor did it restructure the department. It just shifted its focus to its coalition lobbying arm.

SAS respondents disclosed that their thinking templates led them to believe that their political resources, human, organizational, structural, and network resources, needed to be used to defend their position from the institutional environment. Moreover, the

senior management team believed that their previous experiences, foresight, current learning, and autonomous factors of ownership and time played important roles in configuring their political resources to develop their lobbying capability, in order to effectively leverage and deploy their political resources again (resource->capability->resource). The respondents believed that it was important to get involved in lobbying activities earlier rather than later. In this context, they realized that time was an issue, therefore talking to high status authorities early and using AEA was the right way to lobby. As this respondent says:

Yes, I agree with you completely. Nobody could in Europe wait. It was about getting together quickly. The national governments were the ones to provide the guarantees. In this time, European structures were superfluous where national relations were extremely important. Because when things happen so fast there was simply no time to do anything on a consorted level. There was a development very quickly. It was called EURO time at ICAO.

Case Study 5: TAP Air

The government affairs function within TAP air was organized to deal with the political environment and the legal frameworks. This office contained people that were responsible for communication with the key stakeholders. These forms of communications constituted formal and informal information exchanges at national and international levels with political actors; sustaining and building relations with institutions, airlines and political actors at both national and international level; and monitoring the political landscape. At the national level it primarily had contact with the Portuguese parliament and the Portuguese government. Contact with the national government was mainly with the Ministry of Transport and with the treasury. At the EU level they had contact with the commission, parliament and council. As one respondent said:

I deal with government affairs and our department deals with government affairs, multi-lateral representation, and aeropolitical affairs and also alliances. So it is external affairs and alliances where we have to keep our networks fresh and alive. By alliances it does not mean on the alliance in which we are integrated in but also all the commercial arrangements that we have with other non-alliance partners.

Pre 9/11 this office focused its efforts on issues such as route development to places like Brazil and Venezuela. At an abstract and peripheral level they focused mainly on monitoring and creating new opportunities by scanning the non-market environment. As one respondent said:

I made it clear that it was all about the search of commercial opportunities. It was very much about our office lobbying our civil aviation authority in order to make sure they would allow us to grow here or there and so forth. This has been very much the main stream of effort before 9/11...The revenue enhancement side then on the cost reduction side, so that was probably the big difference, if you compare the period before and the period after.

However, during this exogenous policy context (2001-2005), this department took decisions to influence the policy environment in order to facilitate the implementation of their own corporate strategy. Their strategic behavior started more at a local level, with them touching base with contacts at the European Commission. With further evaluation of the different options, they decided not to invest too much time and resources on their individual lobbying processes. As a result, they shifted all efforts to AEA to do the lobbying. As a respondent said:

On the security measures issues, we mimicked or processed on what other airlines did, so when one member state does something, other member states do the same. So one starts the chain reaction. For instance cockpit doors, and that sort of things, there was coverage for that type of cost. But for the main cost incurred, there was no consensus. Again it is an issue of how many member states are willing to step into resolving a certain issue. More and more member states look at each other. They do not do anything without looking at each other, for instance Portugal will look at France or UK etc. So it very much depends on how strong you lobby with the national government...Of course, we also used an association called AEA. I believe, in this particular time, we used them a lot. With AEA, we

always exchanged views, and tried to have all our peers as active as everyone else, as it is the only way.

TAP realized their political capability development process had to measure the best efficiency path for this type of context. The choice was determined by the facts that there was a short timeframe and most other airlines had similar interests. TAP Air's government affairs office was using different lobbying routines in order to leverage and deploy political resources to influence policy makers for the three policy issues: insurance coverage, airline security cost issue and compensation package. They started using a combination of lobbying practices such as: high frequency telephone routines, visiting friends, writing letters and one to one sessions with political contacts. They focused most of their efforts on coalition representation (using AEA) after a few weeks instead of using mainly individual efforts. A senior manager said:

We used mainly personal contacts at the start. This choice was based on the fact that our previous experience showed personal routes are important at the start. The email is very impersonal and people read it or don't read it. If you send a letter that is one page, people get bored and they do not have time, they probably put it somewhere on their desk and let it sit there for two months. I do! It was very much our principal that as much as possible, we needed face to face meetings after 9/11, where we explained what we needed. Being a state-owned airline, people listen to at home. As much as we can that is how we worked. In other words, direct methods... But then AEA was also used to make our position more transparent... we did after 2003 restructure and lay off some people.

Prior to 9/11, the government affairs office did not develop a sophisticated European lobbying arm as they did not have to go far to speak to their national government. However, after 9/11, the direction and lobbying efforts had to change for the government affairs office at TAP, because they had to defend their declining position. Moreover, they drastically changed their strategic behavior in running their government affairs department and hence restructured the department. As a result, it shifted its focus to its

coalition lobbying arm. As one Senior TAP figure highlights:

We are not sitting here and waiting for our civil aviation authority or external relations department of Ministry of Transportation...So for me in order for the lobbying to be as effective as possible, you need to start your intervention very early in the process, as soon as it happens, we immediately create an internal questionnaire and discussion to create the broad lines of TAP's position on this or that issue. We discuss it with our CEO or the member of the board then we start shooting, we usually do it to the Ministry of Transportation, to the civil aviation authority, to the permanent representative of Portugal in Brussels. Sometimes directly with the transport committee of the European Parliament or even the Commission. And then of course we give our knowledge to AEA and IATA, so that they know what we are doing. So this is very much the process.

During the interviews, TAP's senior management explained that thinking processes were well-defined, but constrained by time. However, following a blueprint led them to believe that political resources, human, organizational structural and network resources could be used to develop their lobbying capability. They believed that some sub-level political resources were needed for their lobbying to reduce the potential onset of negative policies for airlines. As one respondent said:

We had the people with some good knowledge in place to deal with the rising issues from 9/11. But you need more time to influence at the EU level. Maybe our structure and competence was more national oriented than EU level, which we tried to fix around 2004. But using AEA was another avenue to follow after 9/11, as they had the resources and competencies.

Case Study Comparison

Following our case-by-case analysis of the political actions (mainly lobbying activities) employed within each of our five case studies, we focused our attention on developing a deeper understanding of how the political capabilities employed within each airline came to be developed on the aftermath of 9/11. We developed a political capability development path for each firm based on our interviews and archival data. We then compared and contrasted these paths to see whether there were similarities across the five

cases. We found that broadly the five case airlines had followed five key steps in their political capability development process. These were: 1. Designing Political Capabilities, 2. Changing Context, 3. Shaping Induced Political Strategy, 4. Shaping Autonomous Political Strategy, 5. Choosing Resources and Routines, 6. Shaping back the Environment. Table 3 below captures these six stages of our process model and provides additional evidence to support the presence of each stage. Table 4 summarizes and provides a comparison of the features of political capability development across the five case studies. Next we show how these results can help us build a more nuanced theoretical understanding of the political capability development process.

Insert Table 3 about here

Insert Table 4 about here

DISCUSSION AND CONCLUSION

Towards a Model of Political Capability Development

Our research identified a range of organizational variables that the airlines were expectedly seeking to change or change as a result of this reactive institutional context, as illustrated in Figure 2. Making these changes was mainly viewed not as overcoming inertia or commitment to an existing path of political capability development, but rather as a need for a different realignment to the institutional context in order to reach what several informants termed “the following stage of the institutional context” of the security policy issue. In other words, not all airlines were purposely seeking to create an effective ‘political capability’ from the time when they came across the institutional context, but rather it was about lobbying to reach the next stage of obtaining the “positive decisions

from within the political system”. Nevertheless, the decisions were taken by the senior managers in order to defend against the potential security policy and its impact on the potential performance.

Insert Figure 2 about here

Figure 2 shows the central tenets of capability theory and the role of management commitment in shaping the development and application of political capabilities in a reactive institutional context. We conceptualized the interplay between the senior management’s strategic decision making and the policy environment as a type of cycle. The systematic order from 1-6 depicts the underlining logic from the strategic choice to reacting to the emerging policy environment (e), where the organization has to shift from previous institutional environment (E) to the new institutional environment (E). At stage 1, the senior management teams are dealing with the day to day activity of a specific policy environment at international and national level. At this stage they choose a specific political strategy or use an existing one to meet the new emerging policy context (stage 1 and 2 are closely linked). At stage 2, the management come across an emerging policy context, whether a high uncertainty or low uncertainty on the policy type. At stage 3, the senior management introduces a strategy for influencing policymaking, where they decide how to deploy, leverage or reconfigure their specific political resources to either defend or create political advantage. However, stage 3 ties in with stage 4, where the senior management comes across autonomous (emergent) effects on the political strategy, either due to time-frame or ownership structure, which act as a constraint mechanism to political capability development, causing the path to be pre-determined in some way and

offering little flexibility i.e. as found in state-owned airlines. At stage 5, the senior management have to decide how to configure their political resource base, in order to use generic or idiosyncratic political capabilities to influence. At stage 6, they must react to the new dominant policy context (E). Having presented the model of political capability development, we next discuss our theoretical and empirical contributions.

Theoretical Contributions and Managerial Insights

In our theoretical discussion we suggested that political resources, institutional features and institutional levels could be perceived as a strong constraint or facilitator in the transferability of micro sources during the development of political capabilities. As we showed, most prior research on capabilities has emphasized the constraining effect of organizational history, organizational learning, technological trajectories, evolutionary paths created by organizational routines, and resources or decision-making taken by top managers which tend towards inertia (Ethiraj *et al.* 2005; Teece *et al.* 1997; Tripsas and Gavetti 2000;). Our findings contribute to these studies by revealing: a) the distinctive stages of political capability development and b) the way the institutional context can impact on the political capability development process.

The findings of our study also address many of the theoretical limitations of the capability theory (Eisenhardt and Martin 2000; Ethiraj *et al.* 2005; Priem and Butler 2002;), while also extending and elaborating the theory of capabilities to connect it to institutional effects, and simultaneously building in a behavioral dimension by applying a theory of strategic decision making that operates on several levels of analysis. We attempt to identify each phase in the process model which was deduced from extensive research, which assessed the business and political capability profiles of five case organizations: two state-owned airlines (TAP Air Portugal and Alitalia) and three

privately owned airlines (SAS, Lufthansa and KLM).

When we compared the state-owned airlines with privately owned airlines in this institutional context, in which we found diverging styles in the development of political capabilities. Moreover, we found that there was a general pattern in place, where state-owned airlines were investing less effort into their political capability development in this context. Similar to Carpenter and Fredrickson (2001), we found that organizations reacted similarly to their given institutional context. However, we also found that state-owned airlines illustrated some similar behavior as privately owned airlines. However, our findings demonstrate that state-owned airlines experienced more constraints within their institutional context despite following similar processes, which had an impact in their political capability development process. We argue that this difference can attribute to the fact that there was no separation of control and ownership, which did not align the principle and agent (Eisenhardt, 1989). The interests and incentives were different, which caused some inefficiency on the investment of effort. Our findings also provide empirical backing for the argument that “a practice perspective can shed light on the way capabilities emerge, are developed, modified and changed over time, furthering our understanding of the essence of dynamic capabilities” (Jarzabkowski, 2005:7). More specifically, we find that micro-level political processes are related to the particular nuances of the institutional contexts firms operate in. Therefore, in reactive institutional contexts, we have networking and human capital practices, which are either generic or idiosyncratic.

In conclusion, our study of the airline industry in the aftermath of 9/11 has sought to build a bridge between organizational capability theory and institutional theory, in order to identify the antecedent micro-level processes that play a role in developing a

political capability in a given reactive institutional context. We argue that the effective development of corporate political capabilities to influence political actors by top management teams within European flag carrier airlines depends on a number of complex and overlapping variables between the institutional and organizational levels. We found that management decisions are core to this development process, within which the senior manager have to decide on the level of time investment that his or her department has to make in network relationships to influence political actors. Taken together, our theoretical and practical insights offer a new glimpse into the ways political capabilities are developed in firms that face emergent institutional pressures.

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Table 1: Perspectives on the study of political capabilities in emergent institutional contexts

	Institutional View	Resource-based View	Strategy-as-Practice Perspective
Principal Questions	<ul style="list-style-type: none"> How do firms and industries deal with emergent institutional contexts? 	<ul style="list-style-type: none"> What are the resources that a firm needs to develop political capabilities in emergent institutional contexts? How can these resources be developed? 	<ul style="list-style-type: none"> What are the political capabilities required by managers when dealing with emergent institutional contexts? How are political capabilities developed and reconfigured by practitioners?
Theoretical Aims	<ul style="list-style-type: none"> To theorize about the ways firms and relations amongst firms change in the context of emergent institutional contexts 	<ul style="list-style-type: none"> To theorize about the role of firm resources for the firm's ability to deal with emergent institutional contexts 	<ul style="list-style-type: none"> To theorize about the particular forms of acting and the on-going processes through which actors develop political capabilities
Key Constructs	<ul style="list-style-type: none"> Incumbency/inertia 	<ul style="list-style-type: none"> Preexisting firm resources Resource gaps 	<ul style="list-style-type: none"> Lobbying capabilities Practice breakdowns
Methods	<ul style="list-style-type: none"> Mainly quantitative approaches and some limited use of qualitative methods 	<ul style="list-style-type: none"> Mainly quantitative approaches and some limited use of qualitative methods 	<ul style="list-style-type: none"> Qualitative and ethnographical /action-based approaches
Theoretical Foundations	<ul style="list-style-type: none"> Powell and DiMaggio, 1991; North, 1990. 	<ul style="list-style-type: none"> Peteraf, 1993; Tripsas and Gavetti 2000; Ethiraj et al. 2005 	<ul style="list-style-type: none"> Feldman and Orlikowski (2011), Sandberg and Tsoukas (2011)

Table 2: The five case study airlines

Airlines	Ownership	Number of employees	Country of origin
SAS*	21.4% Swedish State 14.3% Danish State 14.3% Norwegian State 50% Private interests	13,528	Norway Sweden Denmark
Alitalia	62.4% State ownership 35.7% Private ownership 2% Air France	20,575	Italy
TAP Air Portugal	100% State ownership	5,750	Portugal
Lufthansa*	91.4% Free Float 8.6% Block Ownership	90,673	Germany
KLM*	100% Public quoted company (2001) 96% KLM/Air France (2004)	37,487	Netherlands

* Majority public quoted

Table 3: The six stages in the development of political capability in a reactive institutional context

Stages	Interview Extract	Strength of Evidence (***: Strong, **: Moderate, *:Weak)
1. Designing Capabilities	We were lobbying the EU system mostly through AEA but we also obviously used our national EU representatives. We addressed the Scandinavian governments and parliaments for the compensation package. We had to start by thinking about the tactics to influence various stakeholders.	***
	To make sure people hear you, you must contact your top trumps quickly, then start contacting other friends at other airlines and the AEA.	***
	We kept everything in-house, as that is the best way to keep control on outcomes. Yes, everything was done in-house, so that we could save money. Hiring consultants is far too expensive and we need to keep the influence knowledge in house	***
2. Changing Context	At this time we needed to be effective, efficient and more serious about lobbying. Influence on the political decision making process cannot be made from a distance. You have to be there, physically present in the Brussels environment. That is a structure we introduced before 9/11 - in 2000. Therefore, there was no real change in our structure.	***
	I think you could say that in this context building new networks was not important because we already had the old networks and time was knocking on our door. In general, I would say the first most important thing we used would be the current network from our people. The second thing is that our organization has a strong reputation, so this helps to build up such a network and keep your network healthy. Of course the contact maker has to be well connected and articulate in relaying the information.	***
	The contacts cannot be born overnight. It's more complex in our lobbying design.	**

	For example in our department after September 11 we had few people from different fields of knowledge. We had thinkers - which is important - and then contactors. At least that is how we worked then and still work.	
3. Shaping Induced Political Strategy	We did not change our structure. We remained structurally intact with no modifications. Like I said earlier. This department is very specialized and each person plays a very important role. Lufthansa can be weakened if any of them are taken out of the big picture. Yes other departments did lose people, like in marketing, but our function is viewed as a very important function.	***
	Well, post-9/11, we built it both ways. We like to form them naturally and by actually targeting specific people we know that might help us in achieving what we want. We were contacting all the people that we knew had power to get the insurance issue, aviation cost issue and compensation package issue resolved without affecting our revenue. You could argue it was induced by us.	***
	Post-9/11 meant that we had to react quickly, as time meant less money and potential future problems. Having to react quickly meant that we had no time to recruit new people, and in actual fact it did not make sense hiring new people in this time for us.	***
	What we have done is we have slightly restructured in such a way that we were getting smaller in number slowly after 9/11. My department is now just four while there were five other people in the same area in 2001.	***
4. Shaping Autonomous Political Strategy	Being a state airline means obviously that we can talk to the national government. The ownership plays a big role in deciding how to lobby. In our case because we are a government-owned company, we don't have to lobby the same ways as British Airways or KLM. We spoke directly to the government, but mainly used AEA due to time factor in this context.	***
	We had people with some good knowledge in place to deal with the issues arising from 9/11. But you need more time to influence at the EU level. Maybe our structure and competence was more nationally oriented then EU level, which we tried to fix around 2004 by hiring new people.	***
5. Choosing	We re-shaped in early 2002 and did the main restructuring around 2003. But we definitely re-enforced our lobbying activities because of all the consequences of	**

Resources and	the 9/11 attacks.	
Routines	We used direct contacts, had meetings and phone calls with the treasury, which was not that successful in my view. But yes, I believe that AEA was the most important way to get our message heard.	***
	I think we were slightly limited in who we could talk to being government-owned. But this can be good, as you can well imagine, being owned by the government means you can organize meetings quickly with important people to inform them about your position. This means we can be heard in Europe quickly. As we all know there are good things and bad things to being owned by a state.	***
6. Shaping back the Environment	We realized that we needed new people who had better EU knowledge, as that is where things were moving.	**
	People are important and we think that 9/11 hit us hard. We had to lobby using various routines like meetings, communicating using our phones and face to face, but our people were less EU focused. Therefore AEA became a very important channel for us to have our voice heard.	**
	Oh yes, it became even more crucial to restructure our department after 9/11. Actually that is when they hired me. They changed a bit the profile of the director for that position in the sense that before the person that was in charge had a more national background. After September 11, I was recruited because our firm wanted someone that had more of an EU background.	**

Table 4: Comparing the five case studies in terms of their political capability development processes

	KLM	Lufthansa	Alitalia	SAS	TAP Air
Approach to developing political capability development	Directive, Top-down Reactive	Directive, Top-down Reactive	Directive, Top-down Reactive	Directive, Top-down Reactive	Non-directive, Bottom up Proactive
Organizational structure investment	Modified early (pre-deregulation)	Modified early (pre-deregulation)	Modified late (After second package)	Modified early (pre-deregulation)	Modified late (After second package)
Network investment	Modified early (pre-deregulation) Sequence order from national to international political targets	Modified early (pre-deregulation) Sequence order from national to international political targets	Modified late (After second package) Sequence order from national to international political targets	Modified early (pre-deregulation) Sequence order from national to international political targets	Modified early (After first package) Sequence order from national to international political targets
Competencies investment	In-house competence not modified.	In-house competence not modified.	Modified early. In-house competence modified and	In-house competence not modified.	Modified early. In-house competence modified and AEA

	However, modified competence by shifting focus to AEA	However, modified competence by shifting focus to AEA	AEA competence introduced	However, modified competence by shifting focus to AEA	competence introduced
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Figure 1: The national and international-level stakeholders of the five case study airlines

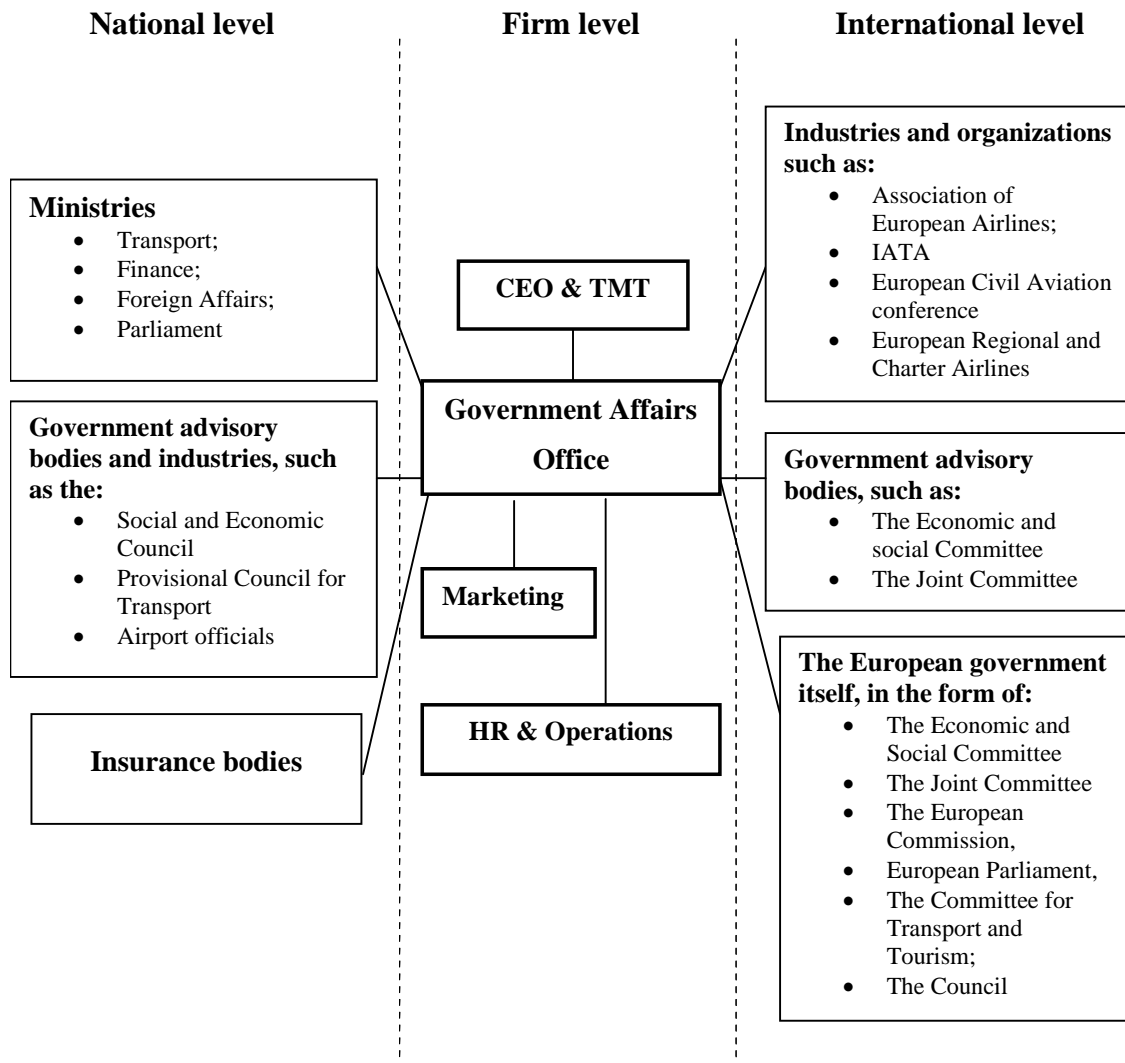


Figure 2: Capability Development Process in the context of a reactive institutional environment

